RATING ACTION COMMENTARY

Fitch Affirms North Macedonia at 'BB+'; Outlook Stable

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Fitch Ratings - London - 11 Sep 2026: Fitch Ratings has affirmed North Macedonia's Long-Term Issuer Default Ratings (IDRs) at 'BB+' with a Stable Outlook. A full list of rating actions is below.

North Macedonia's 'BB+' rating is supported by more favourable governance indicators and higher GDP per capita than peer medians, commitment to an EU accession process that acts as a reform anchor over the medium term and a record of credible and consistent monetary policies that underpin the longstanding de facto exchange rate peg to the euro. Set against these factors are the economy's small size, high government debt/GDP and large current account deficits.

KEY RATING DRIVERS

Sizeable Fiscal Deficits: Fitch projects the general government deficit at 4% of GDP in 2026 (current 'BB' median: 3.5%), with a gradual decline to 3.6% (still above the Organic Budget Law (OBL) mandated 3% limit) by 2028. The authorities have revised the 2026 fiscal deficit target from 3.5% of GDP to 4.1%, reflecting higher commitments on public sector wages and agricultural subsidies, as well as capex.

Capex accelerated by a substantial 40% yoy (equivalent to 46% of the revised full-year target) in January-July 2026, reflecting strong execution of the flagship 8/10d corridor projects. The share of capex in total government expenditure averaged 11.2% in 2021-25.

Weak Fiscal Anchor: Authorities have pushed back the full implementation of the OBL for a third successive year to 2028, citing high current and capex needs, as well as insufficient progress with technical preparations. The OBL imposes a limit of 3% of GDP on the fiscal deficit and 60% of GDP on gross general government debt (GGGD). Fitch expects reforms, including the use of e-invoicing, to lead to only moderate improvements in revenue in the medium term.

Significant Government Debt: GGGD was 51.6% of GDP at end-2025, and Fitch expects it to stabilise at 52.7% on average over 2026-28. Borrowing will be dominated by external sources, with a mixture of Eurobond issuances and syndicated loans. About half of external government debt is owed to multilateral and bilateral creditors. As of 1H26, about 62% of GGGD was foreign-currency-denominated, almost entirely in euros, mitigating exchange rate risks due to the denar's de facto peg with the euro, while 76% was at fixed interest rates.

Contingent Liabilities: Government guarantees stood at 6.8% of GDP as of 1H26 (of which the state-owned Public Enterprise for State Roads (PESR) accounted for the largest share, equivalent to 4.1% of GDP). Legislative changes from June 2026 mean that PESR can no longer rely on budgetary funds but must use its own revenues for completion of the 8/10d corridors. In Fitch's view, given PESR's limited revenue-raising capacity in the near term, it will be highly reliant on government guarantees for borrowing to complete them.

Fitch understands that there have been at least four calls on sovereign guarantees of up to USD76.3 million (0.4% of GDP) for PESR's loan repayments in 2025. Arrears by state-owned enterprises and other government-related entities were 3.8% of GDP as of 1H26, further raising risks from contingent liabilities.

Inflationary Risks: Inflation averaged 3.7% yoy in January-August 2026 as the impact of the Middle East war resulted in higher energy import prices. Temporary cuts to VAT and excise on retail fuel sales provided some mitigation to energy costs. Demand pressures on prices also appear durable, with wages rising by 7.7% yoy on average in 1H26, and private sector credit growth strong at 13.3% yoy as of July 2026. Fitch expects inflation to average 4% in 2026-28. The central bank raised its policy rate by 25bp to 4.25% in June 2026.

Rising GDP Growth Prospects: The economy has largely been resilient to the impact of the US-Iran war. Real economic growth rose to 4.3% yoy in 2Q26, driven by robust performance in construction and manufacturing. Fitch expects growth of 3.2% in 2026 to be supported by strong public investment and private consumption, while net exports' contribution will be negative as external demand (mainly in the EU) remains weak. Continued execution of reforms under the EU's Reform and Growth Facility and infrastructure projects pose upside to the medium-term potential growth rate of 3%. The small size of the economy adds to the risk of shocks.

Large CADs: The current account deficit (CAD) amounted to 3.1% of projected 2026 GDP in 1H26, and Fitch expects the full-year outturn to reach 5.5% (current 'BB' median: 3.3%), given higher energy import costs and imports associated with capital investments. Net FDI will be insufficient to cover the CAD. However, external borrowing will be supportive of the international reserves position, which will average 3.9 months of current external payments in 2026-28 (current 'BB' median: 5.2).

Rising Net External Debt: Net external debt will increase in the medium term, above the projected 'BB' median of 15.6%. Access to external liquidity will be boosted by the ECB's EUR50 billion permanent repo line, which will be operational from October 2026. There is also relatively high euroisation in the banking sector, although this has been decreasing in recent years.

ESG - Governance: North Macedonia has a medium World Bank Governance Indicators (WBGI) ranking at the 51st percentile, reflecting a recent record of peaceful political transitions, a moderate level of rights for participation in the political process, moderate institutional capacity, established rule of law, and a moderate level of corruption.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Public Finances: A material increase in general government debt/GDP in the medium term due, for example due to failure to implement a credible fiscal consolidation strategy

External Finances: Pressure on foreign-currency reserves or the de facto currency peg against the euro, caused by a marked deterioration in the external position

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Public Finances: A sharp and sustained decline in general government debt/GDP consistent with an improvement in fiscal management and policy credibility

Structural/Macro: Improvement in medium-term growth prospects or governance standards, for example, through demonstrated progress towards EU accession

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns North Macedonia a score equivalent to a rating of 'BB+' on the Long-Term Foreign-Currency (LTFC) IDR scale.

Fitch's sovereign rating committee did not adjust the output from the SRM to arrive at the final LTFC IDR.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LTFC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

DEBT INSTRUMENTS: KEY RATING DRIVERS

Senior Unsecured Debt Equalised: The senior unsecured long-term debt ratings are equalised with the applicable Long-Term IDR, as Fitch assumes recoveries will be 'average' when the sovereign's Long-Term IDR is 'BB-' and above. No Recovery Ratings are assigned at this rating level.

COUNTRY CEILING

The Country Ceiling for North Macedonia is 'BBB-', 1 notch above the LTFC IDR. This reflects moderate constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of 0 notches above the IDR. Fitch's rating committee applied a +1 notch qualitative adjustment to this, under the Long-Term Institutional Characteristics pillar, reflecting the importance of FDI to North Macedonia's open economy and the EU accession process.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for North Macedonia.

ESG CONSIDERATIONS

North Macedonia has an ESG Relevance Score of '5[+]' for Political Stability and Rights as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As North Macedonia has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

North Macedonia has an ESG Relevance Score of '5' for Rule of Law, Institutional & Regulatory Quality, and Control of Corruption as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As North Macedonia has a percentile rank below 50 for the respective Governance Indicators, this has a negative impact on the credit profile.

North Macedonia has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As North Macedonia has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

North Macedonia has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for North Macedonia, as for all sovereigns. As North Macedonia has a record of 20+ years without a restructuring of public debt and is captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING TYPE	RATING	RATING ACTION	PRIOR
North Macedonia, Republic of	LT IDR	BB+ Rating Outlook Stable	Affirmed	BB+ Rating Outlook Stable
	ST IDR	B	Affirmed	B
	LC LT IDR	BB+ Rating Outlook Stable	Affirmed	BB+ Rating Outlook Stable
	LC ST IDR	B	Affirmed	B
	Country Ceiling	BBB-	Affirmed	BBB-
senior unsecured	LT	BB+	Affirmed	BB+
Senior Unsecured-Local currency	LT	BB+	Affirmed	BB+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country Ceiling Criteria (pub. 24 Jul 2023)

Sovereign Rating Criteria (pub. 27 Apr 2026) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.3 (1)

Debt Dynamics Model, v1.4.0 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Climate Risk Model, v1.0.0 (1)

Sovereign Rating Model, v3.14.4 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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